

TENNESSEE STATE FUNDING BOARD
July 22, 2021

The Tennessee State Funding Board (the "Board") met on Thursday, July 22, 2021, at 1:25 p.m., in House Hearing Room I, Cordell Hull Building, 1st Floor, Nashville, Tennessee. The Honorable Jason Mumpower, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of State
The Honorable David Lillard, State Treasurer
Commissioner Butch Eley, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Having established that a quorum was present, Mr. Mumpower called the meeting to order and presented the minutes from the meetings held on June 15, 2021, and June 28, 2021, for consideration and approval. Mr. Hargett made a motion to approve the minutes, and Mr. Mumpower seconded the motion. The motion was unanimously approved.

Mr. Mumpower then recognized Mr. Bob Rolfe, Commissioner of the Tennessee Department of Economic and Community Development ("ECD"), to present FastTrack projects for consideration and Mr. Paul VanderMeer, Assistant Commissioner of Administration, ECD, to present the "FastTrack Report to State Funding Board" (the "Report"). Mr. VanderMeer reported that, as of the date of the June 15, 2021, Board meeting, the FastTrack balance was \$305,238,200.98. Since that time, \$92,008,568.94 in new funds had been appropriated, of which \$8,568.94 was an interest penalty claw-back; \$1,732,900.85 in funds had been deobligated and returned to the FastTrack program; \$5,131,500.00 in new grants and loans had been approved; and \$355,302.18 in funds had been spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of \$393,492,868.59 as of the date of the Report. Mr. VanderMeer reported that commitments had been made in the amount of \$321,726,155.68, resulting in an uncommitted FastTrack balance of \$71,766,712.91. Mr. VanderMeer reported that the projects to be considered at this meeting totaled \$8,974,800.00, and if these projects were approved, the uncommitted balance would be \$62,791,912.91 and the total committed balance would be \$330,700,955.68, which represented 84.0% of the FastTrack balance.

Mr. Rolfe then presented the following FastTrack projects:

- **Barrette Outdoor Living, Inc. – Bulls Gap (Hawkins County)**
FastTrack Economic Development Grant \$ 874,800
- **PUREGraphite LLC, Chattanooga, TN – Chattanooga (Hamilton County)**
FastTrack Economic Development Grant \$ 3,000,000
- **Helen of Troy Nevada and Steel Technology, LLC – Gallaway (Fayette County)**
FastTrack Economic Development Grant \$ 3,000,000

- **Chewy, Inc. – Mount Juliet (Wilson County)**
FastTrack Economic Development Grant

\$ 2,100,000

The Board member packets included letters and FastTrack checklists signed by Commissioner Rolfe, and incentive acceptance forms signed by company representatives. Mr. Mumpower inquired if the companies that had signed the incentive acceptance forms fully understood the agreements, and Commissioner Rolfe responded affirmatively. Mr. Mumpower then inquired if the checklists had been completed for each project and Commissioner Rolfe responded affirmatively. Mr. Mumpower then inquired if all the projects included accountability agreements which would provide protections for the state in the event the entity could not fulfill the agreement, and Mr. Rolfe responded affirmatively. Mr. Eley made a motion to approve the projects. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Mumpower then recognized Ms. Sandra Thompson, Director of the Division of State Government Finance (SGF) and Assistant Secretary of the Board, to present for consideration and approval a "Resolution Allocating from the Debt Service Fund to the Capital Projects Fund \$468,726 and Canceling Authorized Bonds". Ms. Thompson stated that the state provided funding through the commercial paper program for the University of Memphis ("UOM") to purchase sites and existing structures in accordance with their master plan ("UOM 101 Properties"). Ms. Thompson further stated that UOM has repaid the borrowing in the amount of \$468,726. Ms. Thompson then stated that the resolution would cancel bonds for the UOM 101 Properties project in the amount of \$468,726 and would be effective as of June 30, 2021. Mr. Hargett made a motion to approve the resolution. Mr. Eley seconded the motion, and it was unanimously approved.

Mr. Mumpower then recognized Ms. Thompson to present for consideration and approval a "Resolution Certifying and Authorizing the Allocation of Funds to the Sinking Fund for the 2021-2022 Fiscal Year". Ms. Thompson stated that the resolution certified the amount of taxes and fees that would be deposited into the sinking fund to cover debt service expenses for fiscal year 2021-2022. Ms. Thompson further stated that the resolution would be effective July 1, 2021. Mr. Eley made a motion to approve the resolution. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Mumpower then recognized Ms. Thompson to present for consideration and approval a "Resolution Authorizing the Issuance of General Obligation Bonds of the State of Tennessee". Ms. Thompson stated that the resolution authorized the issuance of GO bonds in the amount of \$126,000,000, pursuant to the fiscal year 2021-2022 bond bill, Public Act 2021, Chapter 455. Ms. Thompson then stated that the authorization was for highway construction projects and that the state's current practice was to fund highway projects with cash and not issue bonds. Ms. Thompson further stated that the authorization was utilized to facilitate contracts with highway construction firms. Ms. Thompson then stated that the resolution would be effective July 1, 2021. Mr. Hargett made a motion to approve the resolution. Mr. Lillard seconded the motion, and it was unanimously approved.

Mr. Mumpower then recognized Ms. Thompson to present for consideration and approval a "Resolution Allocating Funds to Defray a Portion of the Cost of Highway Construction Projects and Canceling Authorized Bonds". Ms. Thompson stated that the resolution canceled bonds for highway construction projects in the amount of \$76,000,000. Ms. Thompson further stated that the resolution would be effective July 1, 2021. Mr. Hargett made a motion to approve the resolution. Mr. Eley seconded the motion, and it was unanimously approved.

Mr. Mumpower then recognized Ms. Thompson to present for public hearing and approval the Board's Debt Management Policy (the "Policy"). Ms. Thompson stated that the Policy was to be reviewed no less

frequently than annually, and that the Director of the Division of SGF would present its recommendations for amendments at that time. Ms. Thompson stated that the following revisions were being presented by staff to the Board for consideration and approval:

- Minor revisions made for grammar corrections, to correctly reflect division/department names, to provide clarity, and to add certain defined terms and narratives
- For advance refundings, the requirement of present value savings of at least 4% per series of refunded bonds was preserved and consideration of the refunding escrow efficiency when reviewing the refunding candidates was added
- For current refundings, the parameter for present value savings was revised to at least 2% per series of refunded bonds (instead of 4%) with the requirement that either this criteria, or the criteria that the present value savings per series being equal to or greater than twice the cost of issuance allocable to the refunding series would be met
- For current refundings, a provision was added that allows the Comptroller, in consultation with the Board's financial advisor, to waive the foregoing considerations given that the sale of the refunding bonds would still accomplish cost savings to the public and that such waiver shall be reported in writing to the Board at its next meeting
- The section on Option Value Calculation was removed and replaced with Escrow Efficiency, and the term was defined
- The terms Underwriter's Discount and Evaluation of Underwriter Performance were removed from the section on 'Selection of Underwriting Team'
- The terms, Verification Agent and Escrow Bidding Agent, were added to the 'Professional Services' section with the descriptions of services provided
- A bullet point was added in the 'Preparing for Bond Closing' section that stated that staff would evaluate the bond sale after completion to assess the costs which included the compensation of the underwriter, bond pricing, and distribution of the bonds and sales credit

Ms. Thompson then stated that SGF reviewed the recommended revisions to the policy in conjunction with the Board's financial advisor and the Attorney General's Office. Mr. Lillard made a motion to approve the staff's recommendations of revisions to Policy. Mr. Eley seconded the motion, and it was unanimously approved.

Mr. Mumpower then recognized Ms. Thompson to present a Report on the State of Tennessee General Obligation Commercial Paper ("CP") and Bond Indebtedness. Ms. Thompson stated that the reports had been included in the Board Members' packets. Ms. Thompson then stated that as of June 30, 2021, the amount of taxable CP was \$39,463,000 and the amount of tax-exempt CP was \$167,880,000 for a total of \$207,343,000. Ms. Thompson then stated that the CP balances did not reflect the repayments following the 2021 bond sale as the closing date of the bonds was July 13, 2021. Ms. Thompson further stated that the CP would be repaid over the next 30 to 60 days as the CP matured. Ms. Thompson then stated that as of June 30, 2021, the amount of taxable General Obligation ("GO") bonds outstanding was \$180,660,000 and the amount of tax-exempt GO bonds outstanding was \$1,374,885,000 for a total balance of GO bonds outstanding of \$1,555,545,000. Ms. Thompson pointed out that the amount of bonds outstanding as of June 30, 2021, did not include amounts from the 2021 bond sale that closed on July 13, 2021. No further action was necessary.

Mr. Mumpower then recognized Ms. Thompson who presented a Report on the results of the sale of the State of Tennessee, General Obligation Bonds, 2021 Series A (Series A), and 2021 Refunding Series B (Taxable) (Series B). Ms. Thompson stated that the bond sale was very successful. Ms. Thompson then stated that the 2021 sale of GO bonds was the largest on record for the state as well as having the lowest interest cost to date. Ms. Thompson then stated that the Series A consisted of tax-exempt new money and refunding bonds issued at a par amount of \$167,755,000. Ms. Thompson further stated the Series A issue generated \$43,374,134 in bond premium, which was more than 25% of the par amount, indicating a very large demand for the bonds that were sold. Ms. Thompson then stated that the par amount of the taxable Series B was \$490,910,000. Ms. Thompson then stated that the total par amount of both the Series A and the Series B was \$658,665,000, and with the bond premium included, generated \$702,039,134 in total proceeds. Ms. Thompson then reported that the final maturity date for the new money Series A bonds was November 1, 2041. Ms. Thompson further reported that the refunding bonds had a maturity date of November 1, 2035. Ms. Thompson then reported that the true interest cost ("TIC") for the Series A bonds and Series B bonds was 1.4950% and 1.3616%, respectively. Ms. Thompson then stated that the combined TIC for both series of bonds was 1.4100%. Ms. Thompson also pointed out that the net present value savings for the refunding component of the Series A bonds was \$8,783,838.57 or 10.39% of the refunded bonds and the net present value savings for the Series B bonds was \$41,253,491.12 or 9.44% of the refunded bonds. No further action was necessary.

Mr. Mumpower then recognized Ms. Thompson who submitted the Report on Debt Obligation (CT-0253) for the 2021 GO bond sale. Ms. Thompson stated that two reports had been included in the Board Members' packets, one for Series A and one for Series B of the bond sale. Ms. Thompson then stated that it was required by law that the Reports on Debt Obligation (CT-0253) be submitted to the Board. Ms. Thompson further stated that the reports highlighted the details of the sale. Submission was acknowledged by the Board. No further action was necessary.

Mr. Mumpower then recognized Ms. Sheila Reed, Assistant Director of the Division of Local Government Finance ("LGF"), to present a Report on the Notice of Default by the Economic Development Growth Engine Industrial Development Board of the City of Memphis and Shelby County, Tennessee ("EDGE"). Ms. Reed stated that EDGE had filed a notice of default in connection for each of its 2017C and Series 2017D Graceland Project Bonds. Ms. Reed further stated that the debt service reserve funds had been depleted for both series and that the bonds were secured by Tax Incremental Financing (TIF), Tourism Development Zone (TDZ), and Tourism Surcharge revenues. Ms. Reed then reported that, according to EDGE's legal counsel, visitation at Graceland had continued to be substantially lower than pre-COVID levels directly impacting TDZ and Tourism Surcharge revenues. Ms. Reed then stated that pursuant to Board guidelines, Industrial Development Boards ("IDBs") were required to provide the Board notice of any default within 15 days of the event of default. Ms. Reed noted that the default notices were both filed on July 8, 2021, seven days after the July 1, 2021, date of default.

Ms. Reed then presented further details of the Series 2017D default. Ms. Reed noted that a previous default notice on the Series 2017D Bonds had been presented to the Board in March to report that the semi-annual interest payment in the amount of \$205,219 that was due January 4, 2021, had not been made. Ms. Reed stated that the current default amount represented principal in the amount of \$95,000 and interest in the amount of \$205,219, that were both due on July 1, 2021. Ms. Reed further stated that the cumulative default amount to date on the Series 2017D Bonds was \$505,438.

Ms. Reed further detailed that the Series 2017D Bonds had been privately placed and were secured by a fourth and subordinate lien on the TIF and TDZ revenues as well as a third and subordinate lien on the Tourism Surcharge revenues. Ms. Reed then stated that the failure to make payments on the Series 2017D

bonds was not a default under the bond indenture. Ms. Reed further stated that EDGE was not contractually in default with its bondholders for the Series 2017D Bonds but were in default according to state law.

Ms. Reed then presented further details of the Series 2017C default. Ms. Reed stated that this was the first payment default for the Series 2017C Bonds since sufficient funds were available to pay the semi-annual interest payment of \$853,125 that was due July 1, 2021. Ms. Reed then stated that Series 2017C Bonds were publicly sold in the capital market and were secured by a second lien on Tourism Surcharge revenues and a third lien on the TIF and TDZ revenues. Ms. Reed further stated that failure to make debt service payments on the Series 2017C Bonds was a default under both the bond indenture and state law resulting in EDGE being in default with its bondholders. Ms. Reed then stated that it was LGF's understanding that EDGE planned to make these payments to the bondholders when revenues were available. Ms. Reed further stated that LGF had contacted EDGE's legal counsel to confirm their current plans. Mr. Lillard then asked what actions would be taken as a result of the defaults. Ms. Reed replied that EDGE's bond counsel was in contact with the bond trustee to determine the next steps to be taken. Mr. Lillard then asked if the payments were made on a semi-annual basis. Ms. Reed replied in the affirmative and stated that the 2017C payments were currently interest-only with principal payments commencing in 2026. The 2017D payments included both principal and interest. Mr. Lillard then inquired as to the number of holders there were for the publicly sold (Series 2017C) bonds. Ms. Reed replied that she would submit a request for the information and provide a response to the Board. No further action was necessary.

After requesting other business and hearing none, Mr. Mumpower made a motion to adjourn the meeting, and Mr. Hargett seconded the motion. The motion was unanimously approved, and the meeting was adjourned.

Approved on this 7th day of September 2021.

Respectfully submitted,



Sandra Thompson
Assistant Secretary

